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Public-private alliances for long-term national development strategies

Robert Devlin and Graciela Moguillansky

Few developing countries have succeeded in consistently closing the income gap with the world's richest nations without proactive government action in pursuit of economic transformation and a dynamic role in the global economy. Two factors are crucial here: the development and implementation of a medium- and long-term strategy to achieve rapid economic transformation, and the support provided to this strategy by a public-private alliance forged by means of a social process suited to local conditions. This article analyses the way alliances of this kind operate in 10 countries outside the region deemed to be successful because they have achieved a process of convergence with the developed countries or performed better than those of Latin America and the Caribbean, despite having similar resource endowments. One element that is lacking in the region, or at best is only incipient, is public-private collaboration. Thus, the aim of the analysis is to prompt reflection about the kind of alliances we ourselves could form to underpin strategies aimed at creating "Latin American tigers".

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I

Introduction

The six-year period from 2003 to 2008 was a relatively prosperous one for Latin America and the Caribbean following the lost decade of the 1980s and the region's recovery from successive cyclical shocks in the late 1990s and early 2000s. In this expansionary phase, the region's economy grew by an average of 5% a year and per capita income by 3%, while employment and poverty indicators also improved (ECLAC, 2008a). This was an unprecedentedly good economic performance, at least by the standards of the past 40 years (ECLAC, 2008b).

However, this performance needs to be taken in a broader context. First of all, about a third of the growth was due to external factors (IDB, 2008). Secondly, it was hardly spectacular compared to that of other developing regions (see table 1). A study by ECLAC (2008c) singles out the factors behind the relative underperformance of Latin America and the Caribbean, pointing to shortcomings with productivity, investment and economic transformation and to a lacklustre external trade performance.

Future developments in the global economy, furthermore, are expected to be less favourable to growth in the region. For one thing, it is going to have to cope with a deep recession, the worst since the Second World War, and while some are forecasting a recovery in 2010, this will be modest and hesitant (IMF, 2009). For another, even assuming recovery does take place, there are organizations such as the World Bank that do not expect global growth

TABLE 1

Growth rates in developing countries

(Percentage variation in constant 2000 dollars)

	2006 (ranking)	2007 (ranking)	2008 (ranking)	2009 (ranking)	2010 (ranking)
East Asia	*10.1 (1)*	*10.5 (1)*	*8.5 (1)*	*6.7 (1)*	*7.8 (1)*
China	11.6	11.9	9.4	7.5	8.5
Indonesia	5.5	6.3	6.0	4.4	6.0
Thailand	5.1	4.8	4.6	3.6	5.0
Europe and Central Asia	*7.5 (3)*	*7.1 (3)*	*5.3 (5)*	*2.7 (5)*	*5.0 (5)*
Poland	6.2	6.6	5.4	4.0	4.7
Russian Federation	7.4	8.1	6.0	3.0	5.0
Turkey	6.9	4.6	3.0	1.7	4.9
Latin America and the Caribbean	*5.6 (5)*	*5.7 (6)*	*4.4 (6)*	*2.1 (6)*	*4.0 (6)*
Argentina	8.5	8.7	6.6	1.5	4.0
Brazil	3.8	5.4	5.2	2.8	4.6
Mexico	4.9	3.2	2.0	1.1	3.1
Middle East and North Africa	*5.3 (6)*	*5.8 (5)*	*5.8 (3)*	*3.9 (4)*	*5.2 (4)*
Algeria	1.8	3.1	4.9	3.8	5.4
Egypt	6.8	7.1	7.2	4.5	6.0
Islamic Republic of Iran	5.9	7.8	5.6	3.5	4.2
South Asia	*9.0 (2)*	*8.4 (2)*	*6.3 (2)*	*5.4 (2)*	*7.2 (2)*
Bangladesh	6.6	6.4	6.2	5.7	6.2
India	9.7	9.0	6.3	5.8	7.7
Pakistan	6.2	6.0	6.0	3.0	4.5
Sub-Saharan Africa	*5.9 (4)*	*6.3 (4)*	*5.4 (4)*	*4.6 (3)*	*5.8 (3)*

Source: World Bank, *Global Economic Prospects*, Washington, D.C., 2008.

☐ The authors appreciate the valuable colaboration of Raúl Holz in this research.

to be as strong as in recent years (World Bank, 2008). Lastly, the same source indicates that, for a variety of reasons, there are no grounds for expecting a medium- and long-term commodity price boom as beneficial as the one that recently took place.

Thus, for all its progress in consolidating democracy, implementing structural reforms and restoring economic growth, the region has fallen behind in other aspects of development, while the external factors contributing to its "satisfactory" performance may soon be a thing of the past.

It is urgent for the region to find a path to consistently high growth rates that enable it to converge with the wealthier countries of the world and dramatically reduce poverty. The history of development indicates that this is a very difficult task, but not impossible. Indeed, a significant number of economies have caught up to a great degree, with some even joining the club of developed countries. This obviously stands in marked contrast to the experience of Latin America and the Caribbean (see figure 1).

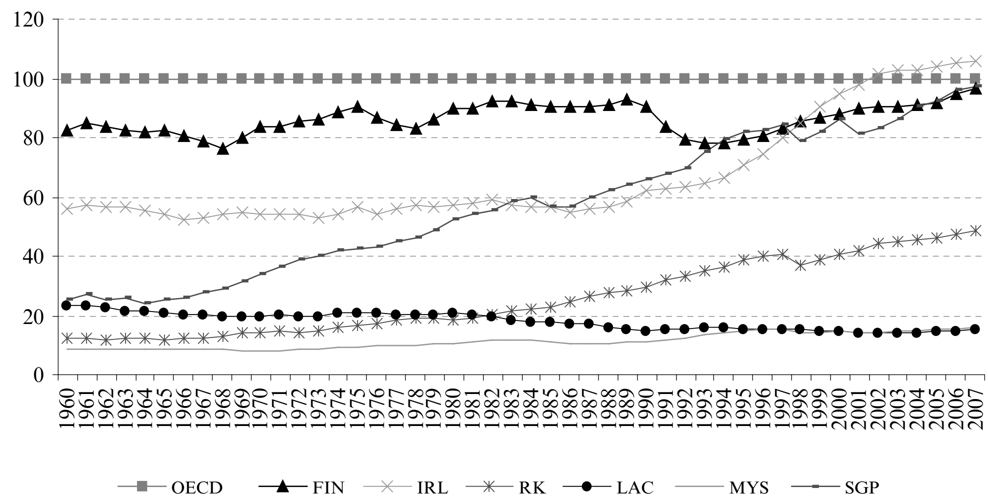
Those countries succeeded because of a combination of domestic and external factors, most of which reflected the particular situation of each. Nonetheless, there was one common factor: the proactive attitude of government, which fostered development by effectively implementing an internationally oriented medium- and long-term national economic transformation strategy. These strategies were organized within the framework of a public-private alliance. Since this is a missing or only very incipient element in the economies of Latin America and the Caribbean, the present article will examine it in greater detail with the aim of prompting reflection about the development of a similar economic policy for the region.[1] The current crisis makes this process of reflection even more necessary. Short-term adjustments will be inevitable in the coming months, but they should be made as part of a more comprehensive approach, i.e., in the context of a medium- and long-term strategy. Otherwise, there is the risk of creating inconsistencies and even contradictions between adjustment policies and the conditions needed for productive transformation and upgrading of economies, as happened in the 1980s.

[1] The analysis is based on a forthcoming book by Devlin and Moguillansky (2009).

FIGURE 1

Per capita income in selected countries and regions

(Percentages, high per capita income countries = 100)



Source: prepared by the author on the basis of World Bank data.

N.B.: OECD = rich countries of the Organisation for Economic Co-operation and Development, FIN = Finland, IRL = Ireland, RK = Republic of Korea, LAC = Latin America and the Caribbean, MYS = Malaysia, SGP = Singapore.

The article is organized as follows. After this introduction, it first analyses the character of development strategies and the way these have evolved in certain successful countries outside the region studied by the authors as part of a research project. It then goes on to review the nature of the different public-private alliances on which these countries' approaches to development have been based. Lastly, it examines an example of a long-term public-private alliance, that of Ireland, leaving the final section for conclusions.

II

Strategies to promote economic transformation and internationalization

1. The character of development strategies

Overtly or tacitly, governments usually have a development strategy. A strategy is a template for action or simply a plan to attain particular goals. Development strategies can have very different characteristics, however. To simplify, strategies may be said to be differentiated chiefly by the amount of public intervention in pursuit of the goals set, and by the emphasis put on accelerating the market's pace of economic transformation.

On the one hand, there are strategies that focus on public-sector interventions to strengthen the autonomous action of market forces, examples being monetary and fiscal policies compatible with macroeconomic stability, protection for property rights and the legal institutions underpinning them, external trade and investment liberalization and certain basic public goods such as education and infrastructure. This approach bespeaks confidence that the free play of market forces will solve economic problems and that a "sound" macroeconomic policy generates sufficient incentives for businesses themselves to lead a process of economic transformation based on the country's international comparative advantages. In consequence, the scope and goals of public interventions are relatively limited and they are kept at arm's length from the workings of the market. To act otherwise would only create distortions that interfered with growth and development.

At the other extreme are strategies that are mistrustful of certain market signals and question whether static comparative advantages by themselves can drive economic transformation rapidly enough to bring about convergence with developed countries. This approach recognizes that short-term signals can be very unreliable guides to the optimum allocation of resources, so that transformation opportunities in turn cannot be exploited to the fullest.[2] Public-sector intervention should thus aim directly at rectifying them. The most common problems include externalities, uncertainty, non-availability of information and lack of coordination between different actors in the market.

From this second standpoint, the goal of public-sector actions and initiatives is to "distort" some short-term market signals —particularly microeconomic ones— and thereby encourage firms to take measures aimed at the medium- and long-term creation of new comparative advantages based on production processes with greater value added and technology content. In other words, some efficiency in the allocation of resources in certain activities or sectors is sacrificed to stimulate economic transformation (UNCTAD, 2006). As Evans (1995) argues, an approach of this kind reveals a magnified concern with a country's ranking in the global economic hierarchy, on the assumption that this is not irremediably fixed by the existing structure of static comparative advantages but that there is scope for public interventions to begin upgrading the economy or accelerate the process of transformation. Furthermore, this perspective is more relevant than ever now that production processes are globalized and services are being traded on a massive scale.

In point of fact, countries' strategies have not strictly followed either of the approaches described, but contain elements of both (Evans, 1995; Ul Haque, 2007). What is at issue, rather, are

[2] As Rodrik (2008a) notes, the new growth theory recognizes the existence of multiple market failures, as does the new trade theory. See also Lall (2000).

the mechanisms used and the dominant approach in the orientation of public policies. Nonetheless, there is an ongoing debate between proponents of the first alternative, known as "monetarist" in the 1960s and "neoliberal" at present, and of the second, which was formerly called "structuralist" and now goes under the name of "neostructuralism" or "industrial policy".[3] It should be said that while the contemporary debate originated with the famous disagreement between monetarists and structuralists in the import substitution industrialization period, the proponents of neostructuralism and industrial policies have brought a great deal of "value added" to the discussion. In any event, the academic debate about which of these approaches would be best for economic growth remains unresolved, since there are serious methodological obstacles to obtaining the formal evidence needed to support one position or the other (Rodrik, 2008a).[4]

Given the lack of conclusive empirical evidence, in the present study we have opted simply to "bet" that the second approach in its modern version is far more relevant to Latin America and the Caribbean. First, because few countries have industrialized without an active strategy of public policy intervention (Chang, 2003). Second, because among the few countries that have succeeded in significantly closing the income gap with the rich world over the past 50 years, a large number did so by proactively working towards industrial transformation, including dynamic internationalization of the economy. Many case studies also suggest that a proactive medium- and long-term strategy can help to bring about this transformation.[5] Lastly, Latin America and the Caribbean has been among the regions that have most closely followed the neoliberal prescriptions of the Washington Consensus but, as we saw earlier, without distinguishing itself in terms of the growth of developing countries.

2. Development strategies in practice

Table 2 presents the 10 countries included in our research into the factors determining the success of strategies and the effectiveness of policies. Five of them (Finland, Ireland, the Republic of Korea, Singapore and Spain) are members of a group of 10 countries (out of a universe of 206) which closed the income gap with the United States by more than 10 points between 1960 and 2005. The other five were Hong Kong Special Administrative Region, Luxembourg, Malta, Norway and Portugal.[6] In addition, two countries in our project, the Czech Republic and Malaysia, closed the gap to a lesser degree. Australia and particularly New Zealand have lost ground in the convergence process, but they have fared better than Latin American countries that are similarly reliant on natural resources. All the countries in table 2 other than Australia, New Zealand and Sweden were relatively or very poor after the Second World War.

To illustrate the different orientations, table 3 summarizes the evolving export development strategies of four of the 10 countries in the study.[7] Those of Finland and Singapore can be characterized by their structural nature, i.e., they have explicit targets for economic transformation where what is pursued is a dynamic of internationalization underpinned by direct, proactive public policy action. Also included were Australia and New Zealand, whose strategies shifted towards a neoliberal approach in the 1980s, although in the present decade the latter country has striven, with considerable difficulty, to apply economic transformation measures.[8]

A good number of these countries have actively pursued economic transformation strategies by developing formal multi-year plans of national scope (see table 4). These plans are important because they help to ensure that the strategy is integrated into the official and public domains, facilitating accountability and orienting the implementation and allocation of resources in accordance with the priorities laid down.

[3] Rodrik (2008a) gives an overview of the debate.

[4] The same problem exists with regard to the effects of trade liberalization and even of exports on productivity and growth (Rodríguez and Rodrik, 2000; WTO, 2008).

[5] Most such studies evaluate the successful experience of East Asia. See, for example, Wade (1990), Evans (1995) and Amsden (1989).

[6] Taiwan Province of China does not appear in the World Bank database of 206 countries.

[7] In the interests of a focused analysis, the research concentrated on export development strategies (a cornerstone of all the strategies), which encompass four main aspects: efforts to attract foreign direct investment (FDI), the internationalization of small and medium-sized enterprises (SMEs), innovation and export promotion.

[8] The Czech Republic (from 2000 onward), Ireland, Malaysia, the Republic of Korea and Sweden all took an economic transformation approach. Spain is an intermediate case: while a quite liberal strategy is applied at the national level, the autonomous communities have implemented what are clearly economic transformation strategies.

TABLE 2

Per capita income in selected countries as a proportion of per capita income in the United States[a]

(Percentages, United States per capita income = 100)

	1960s	1970s	1980s	1990s	2000s (first half)
Australia	63.7	64.4	61.4	60.2	62.1
Finland	54.1	64.4	69.9	65.0	70.6
Ireland	36.6	41.3	43.8	57.0	78.7
Rep. of Korea	8.3	12.4	18.0	28.5	34.4
Malaysia	5.7	6.9	8.4	10.8	11.5
New Zealand	56.9	52.4	46.4	40.8	40.8
Czech Rep.				16.7	17.2
Singapore	17.8	31.4	44.5	60.6	67.4
Spain	32.1	40.0	38.0	40.5	42.5
Sweden	83.7	87.3	84.5	78.2	80.6

Source: prepared by the author on the basis of World Bank data.

[a] Constant 2000 dollars.

TABLE 3

Selected countries: milestones in national development strategies

	First period	Second period	Third period	Fourth period
Australia	1920 Import substitution	1983 Washington Consensus-style policy and trade liberalization	2000 Efforts to spur innovation and attract FDI	
Finland	1970 Natural resource-intensive industrialization. Protectionism and subsidies for fledgling industries. Constant emphasis on education	1993 Entry into the European Union. Liberalization of trade and external capital, including FDI, and greater attention to long-term microeconomic trends. Strengthening and coordination of industry and the innovation system to move towards an innovation society. Research and development approach oriented by the dynamism of industry	2006 Strengthening of the renewal of the innovation system. Increase in the knowledge base. Improvements in science and technology research quality and goals. Increased commercialization of innovations	
New Zealand	1960 Import substitution industrialization	1984 Washington Consensus-style economic liberalization	2006 Economic transformation agenda centred on globally competitive firms, world quality infrastructure, support for innovation and productivity, environmental sustainability and promotion of Auckland as a globally competitive city.	
Singapore	1965 Import substitution industrialization. Exports of light manufactures and efforts to attract FDI.	1979 Policy of orientation towards medium- and high-technology industry and services. Wage increases in labour-intensive sectors as an incentive to achieve the above goal.	1990 Internationalization of manufacturing into neighbouring countries, followed by expansion into China, India and the Middle East. Begins to develop industrial and services clusters, including partially State-owned local firms. Development of a financial and business services platform.	2000 Development of existing industrial clusters and identification and development of new sectors by attracting investment, supporting innovative firms and developing technology in old sectors and a selected number of non-traditional sectors with development potential. Internationalization of SMEs. Creation of new geographical spaces for investment and export.

Source: Robert Devlin and Graciela Moguillansky, “Fomentando tigres latinoamericanos: principios para una visión estratégica nacional en el marco de alianzas públicas-privadas”, Santiago, Chile, 2009, unpublished.

TABLE 4

National plans in selected countries

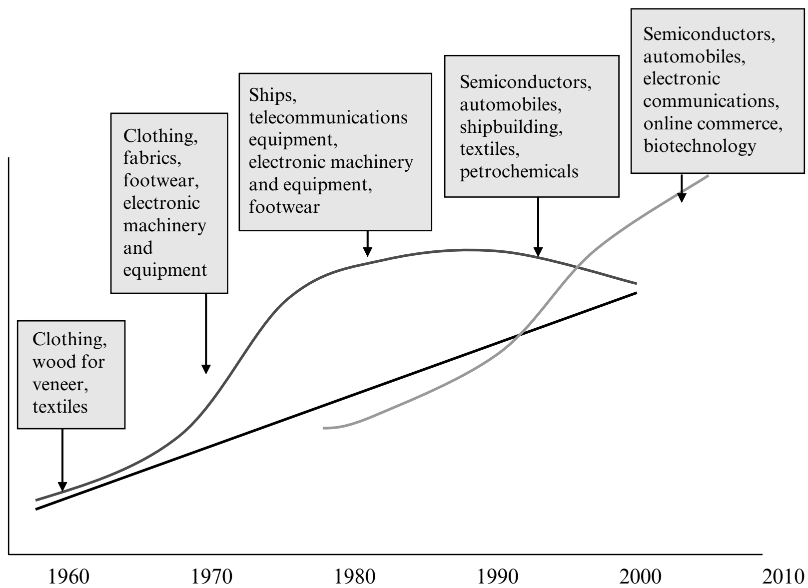
Republic of Korea (up to 1993)	Five-year plans
Republic of Korea (1997 onward)	National plans discontinued, but indicative planning takes place within each ministry
Finland	Three-year plans
Ireland	Six- to seven-year plans
Malaysia	Complementary and interactive indicative plans including a 30-year vision, a 10-year framework plan and a five-year plan
Czech Republic (before 1990)	Central planning
Czech Republic (since 1990)	Three-year plans

Source: Robert Devlin and Graciela Moguillansky, "Fomentando tigres latinoamericanos: principios para una visión estratégica nacional en el marco de alianzas públicas-privadas", Santiago, Chile, 2009, unpublished.

The strategies of countries where public policies actively promote economic transformation have certain features in common. For example, the highest importance is given to macroeconomic stability, fiscal soundness, consistently high investment rates and dynamic internationalization of the economy. Given the growing importance of innovation, all the countries have given priority to human development, including education, with ever-increasing efforts to expand higher education coverage. Although the exploitation of static comparative advantages is a starting point for export development, they have all made determined efforts to create new advantages over time so that external sales can be continually upgraded. Diagram 1 shows the paradigmatic case of the Republic of Korea. Furthermore, the upgrading strategy is dynamic and adapted to local and external conditions. Where public policies are concerned, a "neutral" horizontal

DIAGRAM 1

Republic of Korea: development of principal industries



Source: Yoo Soo Hong, "Public and private sector alliances for innovation and economic development: the Korean case", document presented at the seminar "Public-private partnerships for innovation and export development" (Seville, 13 and 14 September 2008) held by the Economic Commission for Latin America and the Caribbean (ECLAC) and the Ibero-American Secretariat (SEGIB), 2008.

approach is combined with selective interventions to stimulate strategic sectors and activities.[9]

Lastly, a characteristic that can be observed in the evolution of strategies in all the countries, albeit much more clearly in some like the Czech Republic and New Zealand, is the tendency for past practices to be maintained even when better alternatives are available (path dependency). This has been made manifest by the difficulty experienced in switching from the relatively neoliberal strategy promoted from 1984 and 1990, respectively, to a more structuralist one in the 2000s.[10]

III

Proactive economic transformation strategies: the role of public-private alliances

Development strategies with a proactive economic transformation approach start with a diagnosis and evaluation of key opportunities for improving the country's positioning in the global market, involving a medium- and long-term projection and the identification of primary constraints needing to be overcome, mitigated or removed if these opportunities are to be capitalized upon (Stiglitz, 1998). Obviously, this evaluation and the goals set need to be based on empirical evidence about the capabilities of the economy and short-, medium- and long-term trends in the external environment. As for public policies and programmes to deal with these primary constraints, they need to take account of the real situation of the country, the capabilities of the public and private sectors and the measures that will most encourage the private sector to take decisions compatible with the goals of the strategy concerned. Macroeconomic goals and programmes also need to be aligned with those aimed at specific activities or sectors so that market signals and government incentives can be combined in a consistent way.

How can this task be undertaken? Today, by contrast with the decades immediately following the Second World War, the production apparatus in most countries is in private-sector hands. Consequently, it is private firms that must provide market information which, however incomplete, can serve to identify trade opportunities and the obstacles (including public policy-related ones) to economic transformation.[11] However, firms can be short-sighted when it comes to taking decisions and measures that might yield better performance. This is because of the externalities and "market failures" mentioned above, which are especially important in a fast-changing globalized world: first mover advantages, optimum coordination of the business world, appropriation of the benefits of innovation and technological development, etc.[12]

Although governments also have shortcomings and do not necessarily have better information than the private sector, their political leadership can stimulate proactive and forward-looking strategic thinking about the country's needs and coordinate collective actions in pursuit of the public good. Thus, when both sides are working together it is possible to enhance their separate potential for supporting mechanisms and programmes that can identify and deal with primary market failures, as well as failures deriving from public regulation and planning policies themselves. In short, collective thinking is usually more intelligent than isolated individual approaches.

The neostructuralist approach adds some important requirements, however. First and foremost,

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[9] Hausmann and Rodrik (2006) showed that upgrading export activity while continually adding value was vital to rising incomes and convergence. Owing to market failures, however, this does not come about spontaneously. Furthermore, some export development paths are more propitious than others. Because of this, and because governments have limited resources for promoting development, public policies are "doomed" to be selective.

[10] See Haworth (2008) and Benáček (2008).

[11] Depending on the development level of the country's economy and its position in the cycle, the primary constraints on sustained growth may be concentrated in the macro-, meso- or microeconomic spheres. Hausmann, Rodrik and Velasco (2005) have come up with some ideas for diagnosing the subject systematically and setting priorities.

[12] Fajnzylber (1990) points out that economic transformation failures can be particularly damaging in natural resource-based economies.

public-private alliances can only be an effective tool of development strategy if the State collaborates closely with the private sector but retains a degree of autonomy in relation to the public good, or what Evans (1995) calls "embedded autonomy". Only then can it be a full partner for the private sector, but avoiding "capture" by special interests. The second point is that both attaining this autonomy and developing an effective economic transformation strategy depend on the institutional design of a social process of public-private collaboration that yields the information needed to identify socially beneficial opportunities and deal with the primary constraints of new production activities, but without capture of the State.

It should also be pointed out that some of the information needed to produce diagnoses and create intelligent strategies is in the hands of other non-commercial agents such as academia (including researchers) and unions.

If strategies and financial support for them[13] are to put down deep political roots that endure over the medium and long term, it will be necessary to develop consensus or something approaching it, or at least forge a public understanding. This is why alliances often have to include groups from outside the business sector.[14] In any event, the mere fact of "working together" within an institutional framework designed in the light of the considerations discussed here is itself a social process that can lead to the creation of consensuses providing the basis for a development strategy which transcends political cycles (Stiglitz, 1998).

IV
The field of action of public-private alliances

1. A framework of analysis

Diagram 2 provides a stylized description of the field of action of public-private alliances. The left-hand column offers a schematic representation of how their members work together to build a development strategy. It should be stressed that the development of alliances of this type, and the role they play in formulating and implementing the strategies concerned, depend greatly on the particular political, historical and cultural context of the country concerned.[15] There are countries where something like a true public consensus can be reached because this context combines favourably with propitious economic conditions and effective institutions capable of processing the interaction of participants within the alliance. In other cases, the nature of the political context may mean that the alliance is viewed merely as the expression of a public understanding or passive acceptance of the development strategy. One way or another, though, the degree of agreement among the participants in the alliance will condition the extent to which a particular strategy is developed and applied.

When it comes to forging consensus and understandings, interaction between the parties in a public-private alliance can vary in both form and scope. The left-hand vertical axis of diagram 2 shows that the discussion between the public and private sectors may vary along a non-discrete scale reflecting different characteristics of the interaction between the two, ranging from a true dialogue that yields consensus to government consultation of the private sector that helps produce a public understanding or to what is basically imposition of the strategy without much public consultation or dialogue, but with some degree of understanding between the parties. The scope of social participation in the alliance also varies. The horizontal axis of diagram 2 shows that this may range from a trilateral relationship

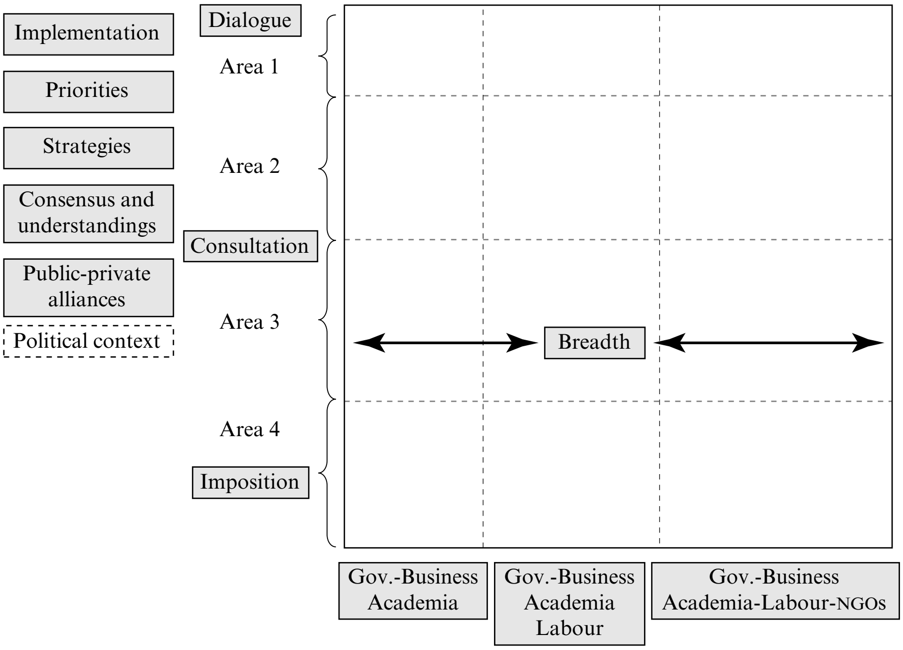
[13] If public acceptance of a strategy is too low, allocating resources to implement it causes strains. For example, public spending on research and development and innovation may be unpopular compared to other alternatives like poverty reduction programmes. Thus, it may be necessary to build up an explicit public consensus or understanding to ensure that the former is consistently provided for in the budget.

[14] As Prats i Català (2005) points out, however, weaker sectors may need support if they are to participate effectively in the dialogue.

[15] In the words of a joint study by the World Bank, the International Institute for Democracy and Electoral Assistance and the Economic Commission for Latin America and the Caribbean (World Bank/IDEA/ECLAC, 2005, p. 11): "The process of building a national Vision does not have a unique format but must be adapted to the country situation and to the particularities of the participating stakeholders."

DIAGRAM 2

Scope of public-private alliances



Source: Robert Devlin and Graciela Moguillansky, "Fomentando tigres latinoamericanos: principios para una visión estratégica nacional en el marco de alianzas públicas-privadas", Santiago, Chile, 2009, unpublished.

between government, firms and academia to a very broad alliance encompassing practically all major representative groups in society.

Lastly, account needs to be taken of a third aspect not included in diagram 2: the operating structure of public-private alliances. Here, the following stylized variants can be identified: (i) those functioning through formal, explicit structures, (ii) those that have a formal structure but emerge ad hoc and (iii) alliances operating through informal networks or tacit agreements. In practice, all three structures must be present, or coexist, in any public-private alliance. However, one or two may be expected to predominate.

2. Alliances in practice

In the countries studied, we found the following dominant structures:

Structured formal: Finland, Ireland and Singapore.

Ad hoc formal: Australia (e.g., committees and councils focused on specific tasks).

Tacit/informal: Spain and Sweden.

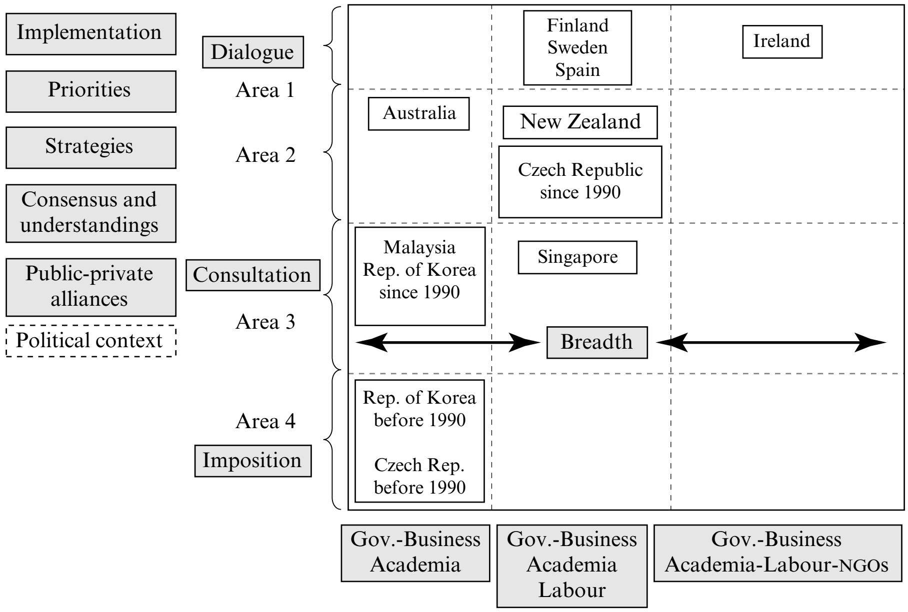
Hybrid (two or more of the above): Czech Republic, Malaysia, New Zealand and Republic of Korea.

Using this classification of countries by the structure of their public-private alliance and the real scope of interaction as indicated in diagram 3, the nature of national alliances in the countries studied can be described. In Ireland and Finland, for example, they are characterized by their breadth and formal structuring. They are a real force in strategy development and implementation throughout much of the public-sector hierarchy, they give rise to a genuine social dialogue, and the agreements reached are close to being consensuses transcending political cycles. Accordingly, these countries belong to Area 1 of diagram 3, with alliances encompassing government, firms, unions, academia and, in the case of Ireland, non-governmental organizations (NGOs).[16]

[16] NGOs were incorporated only recently.

DIAGRAM 3

Public-private alliances: positioning of countries



Source: Robert Devlin and Graciela Moguillansky, "Fomentando tigres latinoamericanos: principios para una visión estratégica nacional en el marco de alianzas públicas-privadas", Santiago, Chile, 2009, unpublished.

Singapore also has a fairly broad and well-structured public-private alliance that is involved in formulating and implementing the development strategy at different levels of the public-sector hierarchy. That of Malaysia has similar characteristics, although without union involvement.[17] In both countries, however, the government undertakes extensive consultations (rather than dialogues) with its partners, after which it takes decisions and announces strategies, so that what emerges is a public understanding rather than a consensus as such. The characteristics of their alliances place the two countries in Area 3 of diagram 3.

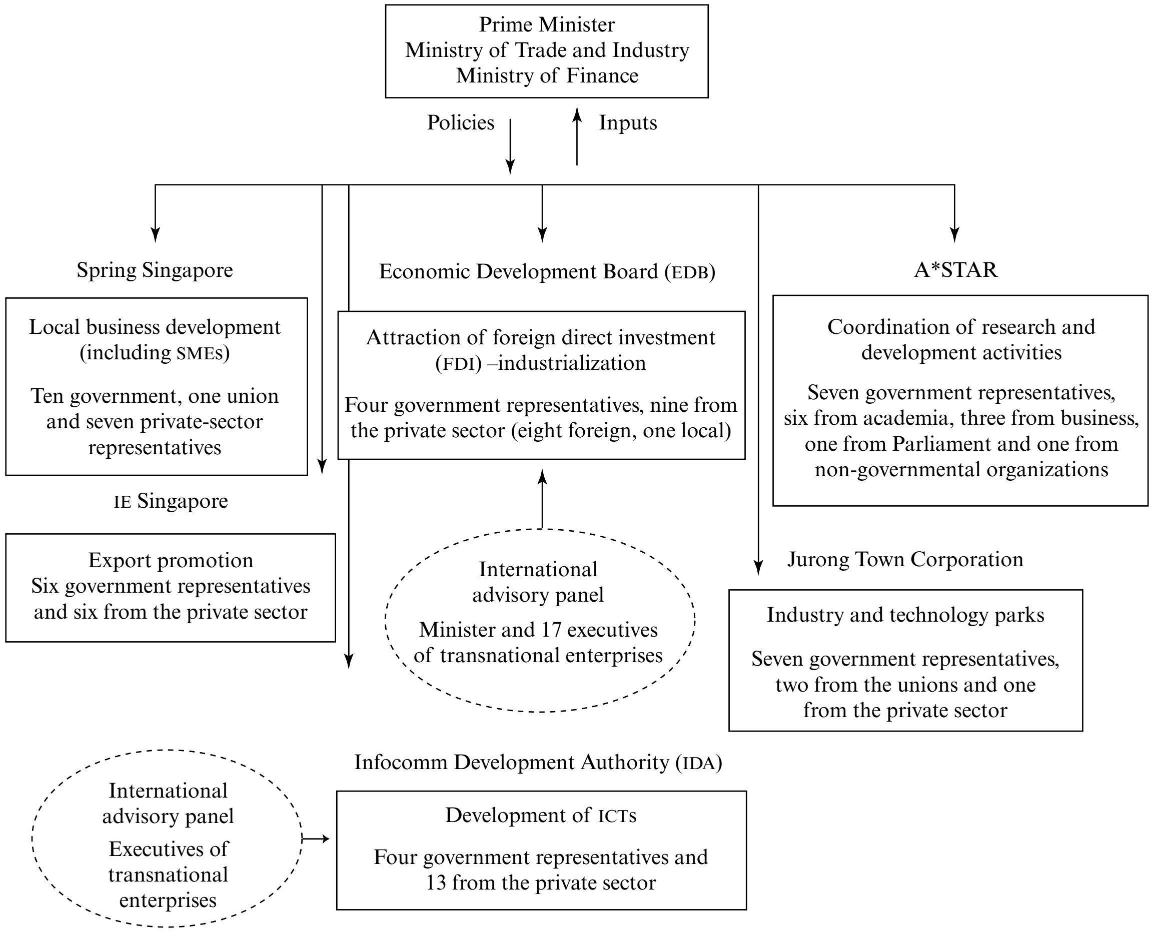
One aspect that should be highlighted in the four countries mentioned, particularly Ireland and Singapore, is how deep the public-private alliance goes in terms of penetrating the government hierarchy. This improves information sharing and process coordination and makes it easier to forge consensus or understandings. Diagram 4 shows the system of institutions created in Singapore for these purposes. Interaction with the private sector is very wide-ranging and representatives from firms even sit on the boards of organizations such as the Economic Development Board (EDB), where the country's development strategies have traditionally been produced. Furthermore, locally-based multinationals operating in the country are part of the private participation, which reflects the importance of firms of this type in the production system and the priority given by the government to garnering international knowledge relevant to its strategy. In the case of the Agency for Science, Technology and Research (A*STAR), not only are some locally-based multinationals incorporated, but so are some foreign academics. Although Ireland has a very similar profile, the members of the different boards have operational responsibilities, whereas in Singapore they only comment on and periodically evaluate policies and programmes.

In Singapore, and to a lesser extent in Ireland and Malaysia, there is another form of public-private

[17] The unions in Singapore have an institutional relationship of sorts with the government.

DIAGRAM 4

Singapore: public-private boards of institutions supporting international trade and investment



Source: Robert Devlin and Graciela Moguillansky, "Fomentando tigres latinoamericanos: principios para una visión estratégica nacional en el marco de alianzas públicas-privadas", Santiago, Chile, 2009, unpublished.

alliance: international panels of advisers like those for the Economic Development Board and the Infocomm Development Authority (IDA) (see diagram 4). In addition, the Development Board, which traditionally spearheaded both the formulation and the implementation of development strategies,[18] organizes a private meeting of the highest political level every year, whose conclusions are announced in a press release. This is attended by invited CEOs of major multinationals and local government representatives who analyse trends in globalization and in the South-East Asia region as well as changes in technology and trade patterns. This is not just a forum for sharing information applicable to national strategies; it also serves to create a network of contacts in the international market whereby concrete opportunities for the country can be identified.[19] The same procedure,

[18] Innovation agencies have since taken over this role.

[19] Another attraction of this meeting from the point of view of general managers of multinationals can be the opportunity it provides to learn about issues relating to East Asia.

but in the academic realm, is followed by A*STAR, which has included a number of Nobel laureates and operates in the context of the National Research Foundation (NRF), a body that leads innovation strategy and implementation.[20] In 2005, Malaysia also formed an international group of advisers to support formulation of its latest national plan. With similar characteristics to that of Singapore, it drew in leading personalities from academia and the private sector.

The public-private alliance of Ireland is embodied in a special council, chaired by the Taoiseach (prime minister), which regularly convenes representatives of the major social groups and, with technical support, engages in discussions to reach consensus on the future socio-economic direction of the country (see section V). This council is believed to have been critical to the success of the Irish alliance and economic model. Finland has its Science and Technology Policy Council (STPC), which serves the same purpose.

Australia and New Zealand can be seen as intermediate cases in the diagram 3 classification. Rather than consensus, the character of their respective public-private alliances depends on coalitions based on the political platforms of governments. In Australia, the alliance is mainly between the government, firms and academia, although changes are likely following the recent election of a government with ties to labour. New Zealand had an alliance with firms and academia until 1999, when a new government brought in labour representatives and paid them greater attention. The structure predominating in both alliances is "fluid", which partly reflects a degree of hostility to corporatism, albeit for different reasons. In Australia, the government until recently maintained a highly orthodox position; in New Zealand, following a long period of very liberal economic policies, the government had great difficulty establishing a social consensus that would allow it to enlist the business sector and political opposition in the construction of an Irish-style model of alliances, collaboration and proactive economic transformation (Haworth, 2008). The hybrid structure of the country's public-private alliance was not stable or well-coordinated enough to generate lasting national consensus on a comprehensive structural strategy transcending the electoral cycle. This partly explains why progress has been slow and incomplete in New Zealand despite the launching of two complementary medium- and long-term strategic economic transformation initiatives, leading to great uncertainty.[21] The fact is that the alliances of these two countries, both of them situated in Area 2 of diagram 3, are not clearly consolidated, which explains the lack of consensus or more solid public understandings.[22]

The Czech Republic is also in Area 2 of diagram 3. The country has formal, structured forums with broad participation and vigorous interaction between the public and private sectors in both the design and implementation of national strategies. However, their input into decision-making has depended greatly on the ideology of the different governing coalitions that have held power during the democratization period.[23]

In Spain it proved possible to build a consensus around the country's national development strategy during the process of democratization and integration into the European Union by means of forums, committees and working groups, among other things. At present, the dominant form of interaction in the alliance between central government and specialized organizations is informal in nature and takes place mainly with unions and business groupings, some of the latter with support from the public sector, which also provides part of their financing.[24] From this it can be deduced that Spain probably belongs in Area 1 of diagram 3. In Sweden, a country where there is consensus, it is not very easy to describe how the public-private alliance works, given its markedly informal and tacit character.[25]

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[20] The private-sector representatives on the boards of the NRF and the Research, Innovation and Enterprise Council (RIEC), to which it reports, are all Singaporean.

[21] See Office of the Prime Minister (2002) and Ministry of Economic Development (2005). An election in late 2008 was won by the conservative opposition. It remains to be seen whether there will be continuity in the economic transformation strategy.

[22] There is a fairly solid public-private alliance in the area of innovation, but the relevant government agencies are not well articulated with a global scheme for the overall direction of the economy.

[23] The insistence of the European Union on conducting a broad social dialogue on the use of cooperation funding has been a positive factor for public-private alliances.

[24] In Andalusia the alliance is structured and formal and is mostly a three-way affair; the private sector is not so proactive, however.

[25] In Sweden there was a tacit alliance between government and major Swedish multinationals, and until recently there were also formal wage agreements between the government and unions.

At the other extreme are the Republic of Korea and the Czech Republic before the 1990s. Both countries belong in the bottom left-hand corner of diagram 3 (Area 4), with strategies being formulated and implemented almost exclusively by government and its specialists. Naturally, the Czech Republic did not really have a private sector at that time. In the case of the Republic of Korea, prior to democratization the practice was to design specific plans regulating the activities of the major industrial conglomerates (*chaebols*), based on a close relationship between the public and private sectors and a wide range of incentives and penalties applied unilaterally to firms.[26] Because it now has a quite sophisticated economy, however, the country has abandoned national planning and the *chaebols* have a great deal of commercial independence. Since the advent of democracy, the government has increasingly come to appreciate the valuable role the alliance between the public and private sectors can play in supporting strategies; nonetheless, dialogue is only incipient. As for the Czech Republic, although it now has appropriate structures in place, the relevance and strength of its public-private alliance depends, as already mentioned, on political coalitions. An economic transformation project arose in the first half of the 2000s but weakened in 2007 following the election of a conservative government.

Lastly, the public-private alliances that are most complete and most effective at supporting medium- and long-term development strategies with enough public consensus or understanding to prevent pendulum swings are to be found in Finland, Ireland, Malaysia, Singapore, Spain and Sweden. The least solid or effective are those of Australia, the Czech Republic and New Zealand. The Republic of Korea, meanwhile, is still in transition from a bureaucratic development model to a more open social model.

3. Consensus-building

Long-term strategies based on a high degree of consensus between the public and private sectors can give better results, not least because consensus helps ensure the survival and stability of strategies across electoral cycles, encourages stakeholders to participate in their development and provides an implicit public verdict on their effectiveness and on the public policies associated with them. More important still is the fact that processes oriented towards building consensus around a particular strategy can mobilize and incorporate the best information, perspectives and capabilities available in the country, while also making it more likely that stable funding commitments will be secured for the priorities agreed on.

Unfortunately, consensus-building is not easy. It depends on factors as diverse as cultural inclinations, political structures and configurations, the power of different social groups, the leadership, vision, representativeness and public standing of social partners, the successes achieved and the degree of urgency perceived.[27] Nonetheless, institutional frameworks that are properly structured to reflect the country's socio-political characteristics can also help to create consensus over time.

Ireland is an interesting case study. The country was one of the poorest in Europe, but from the late 1980s onward it succeeded in building a consensus about its development and its place in the international economy, triggering one of the most remarkable economic transformations anywhere in the world since the post-war period. One particular body, the National Economic and Social Council (NESC) has played a vital role in concerting economic policy agreements over a number of decades. The Council was originally a public-private forum where representatives of the main social groups met to exchange views, but its role has gradually changed to one of facilitating consensus on the general orientation of the economy. As it has evolved, it has also developed a methodology for processing this dialogue so that it yields consensus-based policies (see section V). It should be noted that the formulation of medium- and long-term strategies, embodied in Irish national plans, predated by over two decades the fuller national consensus achieved in the late 1980s following a period of economic crisis. The fact that there was already an effective forum where problems could be discussed constructively made it easier to reach agreement on an economic transformation strategy.

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[26] See Evans (1995), Amsden (1989) and Wade (1990).

[27] A fairly common factor in the countries selected is that a consensus or understanding has often emerged in a situation of crisis. One obstacle to New Zealand adopting a more structuralist strategy was satisfaction at the country's "respectable" rates of natural resource-based growth, even though they were not enough for convergence.

Consensus arrived at through collective action has the advantages already discussed, but can also entail risks that manifest themselves as rigidity in the application of strategies and programmes.[28] However, certain characteristics of the National Economic and Social Council come close to the ideal, especially as regards the way its strategic evaluations of the country's environment avoid "lock-in". As an Australian expert has pointed out (Marsh, 2006) in a more general analysis dealing with the subject of consensus, these characteristics are as follows: (i) the ability to make existing understandings more stable, (ii) the application of mechanisms to reconcile different viewpoints, (iii) an institutional framework that consistently facilitates the study and resolution of problems, (iv) an environment in which the boundaries between political disciplines and the expectations of different social stakeholders can be transcended and (v) the ability to build new political coalitions and networks.

In the construction of what prove to be more durable strategy-forming consensuses, like those of Ireland and Finland, and likewise in the case of understandings such as those of Malaysia and Singapore, there is an explicit concern to make social cohesion part of the process, as this is an important factor for the full incorporation of civil society. In addition, public-private alliances are presided over by the country's highest authorities, such as the president or prime minister.

Although consensus is undoubtedly difficult to attain, high-level forums and meetings that are attended by the public and private sectors, are geared towards solving problems and reaching agreements, are isolated to some extent from day-to-day political confrontation and are grounded in analyses based on real facts can be a good mechanism for achieving social consensus on a national economic transformation and internationalization strategy that is sustainable in the medium and long run.

V

An example of a far-reaching public-private alliance: the case of Ireland[29]

1. Structure and operations

The National Economic and Social Council of Ireland came into being in the early 1960s as a talking shop for employers' associations, unions, farmers' organizations and very high-level public-sector officials (it now includes non-governmental organizations). Its original purpose was to provide a forum where groupings and organizations with different interests could exchange views on the country's economic and social development. In the 1970s and 1980s the NESC served as a non-confrontational discussion forum, but after the crisis of the second half of the 1980s and the macroeconomic disequilibrium, recession and unemployment that ensued, it evolved into a place where social understandings and agreements could be reached within the framework of an economic policy focused on high and sustained economic growth with social equity.

The Council now analyses strategic medium- and long-term economic issues and advises the Taoiseach (prime minister) on policy and programme guidelines. It is chaired by the Secretary-General of the Department of the Taoiseach and its members include the secretaries-general of certain ministries and five representatives from each of the following groups: employers' associations, unions, farmers' organizations, non-governmental organizations and independent representatives (usually specialists or academics). The government invites nominations for representatives of the social groups and itself appoints the independent participants, who share

[28] Another risk is the "capture" of the State already referred to. This can be mitigated by ensuring that the forum is representative and by means of codes of conduct, evaluations and transparency (O'Donovan, 2008).

[29] This section is based on the study carried out by O'Donovan (2008).

its outlook to some degree. Appointments are for three-year terms.

The NESC receives technical and administrative advice from a semi-autonomous secretariat with nine members (most of them specialists with master's degrees or doctorates) responsible for preparing studies to support its deliberations. Its director is a politically impartial and widely respected economist and its staff are selected by competitive examination and appointed by the State on a temporary basis. In 2007, the secretariat had a budget of 1.1 million euros.

The Council meets once a month and decisions are taken by consensus. It prepares a triennial report which is used as a strategic input for negotiations on the social agreement between the government, firms and unions, and as a guide for the government's national plan. The activities of the NESC began to be consolidated in 1986, when it was able to lay the groundwork for conversations between the government and different social stakeholders that resulted in a three-year agreement on wages, taxes and social spending as part of a programme of growth, employment and fiscal equilibrium. Once the situation of macroeconomic imbalance had been dealt with, subsequent reports focused on other strategic issues such as competitiveness, the supply of industrial goods and services and the knowledge economy, all on the basis of social cohesion policies.[30]

2. The consensus-building methodology

The discussions of the National Economic and Social Council of Ireland do not focus on short-term issues. Instead, it formulates recommendations based on the broad principles framing the government's medium- and long-term socio-economic policies and programmes. The goal is to attain consensus within an analytical framework that makes it possible to forge a social agreement, orient a national strategy and incorporate government programmes into the national plan. The type of public-private alliance associated with the Council consists mainly of a process of consultation and agreement between partners united by functional interdependence and a sense of solidarity, social cohesion and participation. Both facets are indispensable to the process, since depending exclusively on the former would give too much importance to the relative power of the partners, while relying solely on the latter would reduce the concept of inclusion to nothing more than a consultation exercise in which the interested parties merely made known their views and needs.

There is a third important aspect, however: negotiation. Consensus-building implies that the partners do not come to the table with hard-and-fast positions or a determination to maximize the benefits to themselves, but rather are willing to follow a process of deliberation that provides an opportunity to formulate and reformulate agreement on particular problems and their solutions as well as on the identities and preferences of the participants, the end result being the creation of something akin to a public good. Thus, the alliance-building process depends on the ability to work towards understanding and enter into deliberations with a view to solving a concrete problem in a way that yields consensus.

The key to the NESC process may be the method of deliberation. The first step is to accept that the essential mandate of the participants is to solve problems, while the second key point is that the deliberation mechanism is designed to do so through dialogue based on inputs from neutral experts and working groups that help to create common positions. The characteristic of this mode of operating is that the debate among the participants does not turn on a definitive point of view; instead, following consideration of the empirical evidence presented by a neutral technical secretary, and in compliance with the problem-solving mandate, a sort of "joint decision" can emerge. The participants are obliged to explain, justify and accept responsibility for their proposals vis-à-vis the evidence, their partners in the alliance, their own members and the general public. Thus, understanding and consensus are not a precondition for the alliance, but an outcome of it.

Another important element in consensus-building is social cohesion, a permanent goal of deliberations on the direction and content of future strategies. The experience of the National Economic and Social Council reveals that a pragmatic discussion aimed at solving a concrete problem can produce consensus, even when there are underlying conflicts of interest and no initial understanding. It should be noted that consensuses achieved at the NESC

[30] For more detailed information, see the web page of the Government of Ireland [online] http://www.irlgov.ie/ and the nesc web page [online] http://www.nesc.ie.

are always temporary, i.e., they serve to formulate practical recommendations for action, but goals, methods and analyses can always be revisited.

The deliberations of the Council are private and are supported by the Taoiseach. The actors involved vary depending on the issues at stake, which makes consensus easier to achieve. Something else that contributes to this is a forward-looking approach, which makes government representatives less defensive. As we have said, the NESC only makes recommendations based on the main thrust of medium- and long-term government socio-economic policies and programmes, and they are not binding. Nonetheless, the strategic reports of the Council have provided the basic input for negotiations on the socio-economic programmes of the social agreement that are held in the Taoiseach's cabinet, and have been very influential in the preparation of the national plan.

Lastly, it must be remembered that the good results achieved by the NESC and its methodology are the outcome of a long process of trial and error beginning several decades ago, thanks to the decision by the public sector to offer interested social groups the chance to participate in a neutral high-level three-way forum backed by the Taoiseach and supported by high-quality technical inputs, so that different viewpoints on the country's development could be analysed in private.

One concrete example of the NESC methodology are the deliberations on the national recovery strategy applied in 1986, when there was an urgent need to stabilize the economy. The problem was analysed intensively at the monthly meetings of the Council under the guidance of its chairman and on the basis of studies prepared by the secretariat. A vital element in reaching an understanding was the switch of focus from the annual fiscal deficit to the debt-to-GDP ratio, which opened the way for a more constructive exchange of views. First of all, it was observed that despite public spending cuts the fiscal situation was continuing to worsen, while the historically high global interest rates of the time were making debt service expensive; accordingly, it was concluded that the multi-year build-up of debt was more important than the fiscal deficit in a given year. Secondly, it was established that the crisis in Ireland went deeper than the fiscal deterioration and originated in the impaired growth rate of the economy. It was also concluded that this mediocre performance was due not just to the macroeconomic problem, but to the country's development style as well. In addition to formulating macroeconomic recommendations, the Council emphasized the challenge of development and economic transformation, i.e., the need to create comparative advantages in areas other than agriculture. To implement policies in this sector, primary constraints were also analysed and industrial policies recommended to deal with them. Following the return to a situation of macroeconomic balance, this latter aspect of the NESC approach was given even greater prominence in the reports.[31]

VI
Conclusions

The current financial crisis represents a new challenge for Latin America and the Caribbean that will need to be confronted by means of short-term adjustments, but also within the framework of a proactive strategy for productive transformation and insertion into the international economy in the medium and long terms. In this way the region will improve its positioning in the global market and will be able to take advantage of the renewal of growth in the world economy, avoiding the contradictions observed in the adjustments of the 1980s.

The study on which this article is based showed how some successful countries from outside the region had managed to substantially increase and sustain their growth rates, thereby closing or significantly narrowing the per capita income gap with the rich countries over the long run, and identified a set of common characteristics that influenced this process. The present article focuses on two of these: the importance of a strategic forward-looking vision

[31] See Caillaud and Tirole (2007) for an analysis of the dynamic of different consensus-building strategies. See Prats i Català (2005) for information on leadership, dialogue, consensus and representative groups.

and public-private collaboration or alliances to deal with problems consensually and decide on strategies for solving them.[32]

It was observed that the key is to organize a representative social process within a framework of alliances that facilitate an intelligent national effort to identify opportunities for accelerating the country's economic transformation and dynamizing the mode of its international insertion, coupled with identification of short-, medium- and long-term constraints and the capacity of the private and public sectors to remove or alleviate them so that the goals set can be achieved. The design of the social process is crucial here: it needs to be socially inclusive and representative and supported at the highest political level, and it must not result in the capture of the State by special interests. Its mode of operation should be conducive to objective, empirically grounded diagnostic work, as this will make it easier to reach consensus on where the economy ought to be internationally in five, 10 or 15 years' time and on the measures needed to attain goals that are realistic but also ambitious.

The study shows how the different countries were able to fulfil these requirements each in their own way, given that there is no universal formula. Nonetheless, the most successful were those with more stable public-private alliances that provided a basis for consensus or public understandings to underpin economic transformation strategies oriented towards successful internationalization of the economy.

[32] The third, effective institutional organization of the public sector to implement the strategy agreed on, was not addressed in this article, but it is a central pillar of the study by Devlin and Moguillansky (2009).

There is a growing interest in developing economic transformation strategies in Latin America and the Caribbean, and the seeds of public-private alliances to sustain them already exist in several countries. However, according to the results of the authors' research published originally in ECLAC (2008c) and of a forthcoming study by them (Devlin and Moguillansky, 2009), there is still a long way to go in terms of designing and implementing strategies and developing effective alliances to support them.

As regards strategies, a significant number have been documented whose contents largely consist of a set of fairly general aspirations for the development of a modern, competitive economy, but which are not complete enough to express effective and properly financed plans of action. Recognizing that strategy and actions plus financing and public-sector organizing ability are the four indispensable elements for achieving these aspirations, the efforts made often fail to yield the desired results. This is because strategies have a very wide range of broad goals, giving rise in turn to a proliferation of unquantifiable targets and actions for which no deadlines or accountability exist. At best, they represent conceptual frameworks rather than strategies as such.

What we consider true alliances are those which give rise to a consensual vision transcending political cycles and where the public sector has the ability to be a credible partner of the private sector, i.e., can effectively implement the actions needed to carry forward a strategy that provides the basis for rapid economic transformation. Inevitably, all this has to be achieved through a social and political process of trial and error. But the goal is clear: to begin constructing an effective strategic approach to public policymaking that can contribute to the development of Latin American "tigers".

(Original: Spanish)

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